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TRANS-CASPIAN OIL MOMENTUM

REF: ASTANA 338

Classified By: AMBASSADOR ORDWAY FOR REASONS 1.4(B) and (D)

¶1. (C) Summary: KazMunayGas, (KMG) Executive Director for Oil Transportation Arman Darbayev expects the Parliament to soon ratify the Azerbaijan-Kazakhstan Inter-governmental Agreement on Trans-Caspian transport. KMG is establishing a sister company focused on Trans-Caspian transport issues. While many questions still surround the Kazakhstan Caspian Transportation System (KCTS), Darbayev expects the pipeline to Kuryk and a system of ferrying oil across the Caspian via tankers to be up and running by 2011-2012. End Summary

Kazakhstan Moves Forward on Trans-Caspian Transport Plans

¶2. (C) Arman Darbayev, KazMunaiGas (KMG) Executive Director for Oil Transportation and Service Projects, told Poloff on February 11 that he expects Kazakhstan's Parliament to soon ratify the Azerbaijan-Kazakhstan Inter-governmental Agreement (IGA) on Trans-Caspian transport. Darbayev admitted that KMG is not entirely satisfied with the IGA, for two primary reasons. First, the document's vague taxation language potentially allows Azerbaijan to levy other charges not covered by the IGA, such as transit and ecological fees. Second, the IGA only covers transportation to the Baku-Tbilisi-Ceyhan pipeline, ignoring other possibilities, including the use of railroad facilities or other new or existing pipelines. Nevertheless, said Darbayev, Kazakhstan cannot turn back on an agreement between presidents.

¶3. (C) KMG is now establishing a sister company to investigate its Trans-Caspian options, according to Darbayev. A fully dedicated staff will focus on the Kazakhstan Caspian Transportation System (KCTS), Trans-Caspian transportation, and issues beyond Baku.⁸ Darbayev called the Azeris &lazy,8 and implied that the Kazakhstanis will have to do much of the work to develop Trans-Caspian options. The Azeris had BP to push through BTC, said Darbayev, but &now there is no one.⁸

¶4. (C) Darbayev believes that KCTS will be up and running by 2011-2012, with a pipeline to Kuryk and a system of ferrying oil across the Caspian via tankers. Kazakhstan is ready to use smaller ships in the beginning (12,000 TW). He suggested, however, that Azerbaijan has generally agreed to then move to higher tonnage vessels (63,000 TW), perhaps by ¶2012. Darbayev briefly mentioned another possible disagreement between the two countries: Kazakhstan believes that the terminal in Kuryk should be used to ship oil in multiple directions, creating &flexibility and competition.⁸

¶5. (C) Kazakhstan, unlike Azerbaijan, is still willing to bring other partners in to KCTS. Chevron is ready for a stake, said Darbayev (Reftel). Other shippers are not seeking a share, as long as they receive access and tariff guarantees.

Kashagan Consortium Struggles With Its KCTS Strategy

¶6. (C) Patty Graham, ExxonMobil Kazakhstan's General Relations and Public Affairs Director, told Poloff on February 13 that the Kashagan consortium is still in disagreement on KCTS, with Total the biggest obstacle to a unified approach. Total and Eni still want to retain the option to use the KCTS to ship some oil south. As an example of the lack of harmony, Graham said that both Total and Shell approached Kazakhstan alone to discuss KCTS after all Kashagan partners had agreed to only make a joint approach. Nick Olds, ConocoPhillips Country Manager, confirmed the ExxonMobil) Total rift and said that Conoco would like ExxonMobil to take the lead on KCTS discussions. ConocoPhillips is not necessarily seeking an ownership share of KCTS but would require some type of protected interest.

Comment

¶7. (C) With the likely ratification of the IGA with Azerbaijan, the creation of a Trans-Caspian unit at KMG, and savvy downstream transactions Kazakhstan continues to steadily and quietly strengthen its Trans-Caspian options. Many questions still remain for Kazakhstan to resolve in its relations with both Azerbaijan and the IOCs. But with Tenghiz production increasing, Kashagan output on the

horizon, and Caspian Pipeline Consortium Pipeline expansion far from a certainty, the Kazakhstani have ample motivation to find solutions.

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